



Office of Audits
Office of Inspector General
U.S. General Services Administration

PBS NCR Triangle Service Center Violated Federal Regulations and GSA Policy When Awarding and Administering Contracts

*Report Number A130129/P/R/R15008
June 30, 2015*



Office of Audits
Office of Inspector General
U.S. General Services Administration

REPORT ABSTRACT

OBJECTIVE

Our objective was to determine whether the PBS National Capital Region's (NCR) Triangle Service Center followed current procurement regulations and policies for ordering and accepting goods and services.

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WHAT WE FOUND

We identified the following during our audit:

Finding 1 – PBS NCR violated federal regulations by awarding a contract for personal services.

Finding 2 – PBS NCR violated federal regulations by not ensuring a predecessor contractor's employees were offered the right of first refusal.

Finding 3 – PBS NCR violated federal regulations by failing to maintain a contract file for an active elevator maintenance contract.

Finding 4 – PBS NCR failed to document the authorization and receipt of goods and services for purchase card transactions thus circumventing established controls over the purchases.

Finding 5 – PBS NCR overpaid an operations and maintenance contractor at least \$4,000 by using an incorrect deductible amount for minor repairs.

WHAT WE RECOMMEND

Based on our audit findings, we recommend that the Regional Commissioner, Public Buildings Service, National Capital Region:

1. Develop, implement, and maintain the management controls necessary to ensure that:
 - a. PBS NCR is not procuring or participating in personal services contracts.
 - b. Services contracts comply with Federal Acquisition Regulation 52.222-17, Nondisplacement of Qualified Workers.
 - c. Procedures are in place to recreate a contract file and administer a contract should a file be lost.
 - d. Purchase cardholders comply with GSA Order OAS 4200.1A.
2. Review all purchase card transactions under Contract Number GS-11P-13-ZG-C-0064 to identify and recover all potential purchase card overpayments.

MANAGEMENT COMMENTS

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged the five audit findings. Management's written comments to the draft report are included in their entirety as **Appendix B**.



**Office of Audits
Office of Inspector General
U.S. General Services Administration**

DATE: June 30, 2015

TO: Darren J. Blue
Regional Commissioner, Public Buildings Service
National Capital Region (WP)

FROM: Susan P. Hall 
Audit Manager, Program Audit Office (JA-R)

SUBJECT: PBS NCR Triangle Service Center Violated Federal Regulations and
GSA Policy When Awarding and Administering Contracts
Report Number A130129/P/R/R15008

This report presents the results of our audit of the PBS NCR Triangle Service Center. Our findings and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in **Appendix B** of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

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On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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Introduction

A PBS Service Center is responsible for ensuring that tenant needs are met efficiently and economically in GSA owned and leased buildings. This responsibility includes the operation, maintenance, repair, alteration, and improvement of GSA-controlled space. Triangle Service Center (Triangle) is one of five NCR Service Centers. Triangle's inventory¹ has 132 buildings with 28.6 million rentable square feet. Its fiscal year 2013 maintenance and operations budget was \$44 million.

The Triangle Service Center, working with NCR's Facilities Program Support Division's contracting staff, awarded and administered contracts for services such as building operations and maintenance, custodial services, elevator maintenance, professional services,² and commercial facilities management. Triangle's micro-purchase transactions³ are made by 16 purchase cardholders assigned to Triangle.

Objective

Our objective was to determine whether PBS NCR's Triangle Service Center followed current procurement regulations and policies for ordering and accepting goods and services.

See **Appendix A** – Purpose, Scope, and Methodology for additional details.

¹ This inventory includes 33 federally owned and owned/delegated buildings and 99 leased buildings.

² Professional services include advertising and integrated marketing solutions, facilities maintenance and management, and professional engineering services.

³ Federal Acquisition Regulation 2.101 defines a micro-purchase as an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$3,000. Federal Acquisition Regulation 13.201(b) notes the government purchase card is the preferred method of making micro-purchases.

Results

The PBS NCR Triangle Service Center violated procurement regulations and agency policy for awarding and administering contracts. Specifically, PBS NCR awarded a contract for personal services and did not ensure a predecessor contractor's employees were offered the right of first refusal. In addition, PBS NCR failed to maintain a contract file for an active elevator maintenance contract, failed to document the authorization and receipt of goods and services for purchase card transactions, and used an incorrect deductible amount for an operations and maintenance contractor's minor repairs. As a result, PBS NCR violated prohibitions against personal services contracts, reduced the potential efficiencies gained from experienced personnel, restricted its ability to effectively administer and closeout a contract, circumvented the established controls over purchase cardholder transactions, and overpaid a contractor at least \$4,000.

Finding 1 – PBS NCR violated federal regulations by awarding a contract for personal services.

PBS NCR awarded a personal services contract in violation of Federal Acquisition Regulation (FAR) 37.104, Personal Services Contracts.

A personal services contract is a contract that, by its express terms or as administered, makes the contract personnel appear to be, in effect, government employees.⁴ According to FAR 37.104, Personal Services Contracts, the government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by civil service laws. Obtaining personal services by contract, rather than by direct hire, circumvents these laws unless Congress has specifically authorized acquisition of the services by contract.

FAR 37.104 cites several elements of a personal services contract, including services performed at a government site and comparable services being performed using civil service personnel. Most significantly, the FAR notes the key question in determining whether a contract is for personal services is, "Will the Government exercise relatively continuous supervision and control over the contractor personnel performing the contract."

In this case, PBS NCR awarded Contract Number GS-11P-13-ZG-C-0260 on September 30, 2013, with a 1-year base and four 1-year option periods. The contract was initially for five Level II budget analysts and two Level III budget analysts at a total cost of \$2,497,908 over the 5-year period.

The contract has multiple elements of a personal services contract. For example, the services were being performed at a government site and comparable services were being performed by GSA personnel, but most significantly, government personnel were providing direct supervision to contract employees. According to PBS NCR

⁴ Federal Acquisition Regulation 2.101

procurement officials, the government personnel would continually assign tasks directly to the contract employees and review their completed tasks.

Additionally, PBS NCR also pre-selected the contract employees, which further indicates a personal services contract. The contract employees' initials were included on the procurement documents; including Triangle's request for services on the GSA Form 49,⁵ the solicitation, and the contract award document.⁶ Five of the initials corresponded to the names of employees working under the awarded contract, GS-11P-13-ZG-C-0260. A GAO decision⁷ states the government dictating individual employees is not permissible and could imply the existence of a prohibited personal services contract. PBS NCR's pre-selection of contract employees further indicates this is a personal services contract.

While the contracting officer opined this was not a personal services contract, he recognized that the contract was not clear on supervisory responsibilities. The Statement of Work did not contain any references to the supervision or control of the contract employees. Soon after our inquiries on this contract, the contracting officer issued a no-cost contract modification with a line item establishing a contractor liaison for the contract. Per the contracting officer, the modification would require GSA personnel to interact only with the liaison when the end product needed changes or corrections.

However, the modification contains no specifics on the contractor liaison's supervisory responsibilities and the Statement of Work was not revised to clarify work requirements and supervision. The majority of the modification addressed the contract staff's work schedules. This modification notes that the contract staff's work schedules would be determined by the contracting officer's technical representative, indicating continued control by a government employee.

Although the modification attempted to establish a contract supervisor for the professional services contract, the actual practice dictates whether a personal services contract is in effect. PBS NCR needs to ensure that all new and existing services contracts clearly define supervisory roles so that contracts are not in violation of federal regulations.

Recommendation 1

We recommend that the Regional Commissioner, Public Buildings Service, National Capital Region develop, implement, and maintain the management controls necessary to ensure that PBS NCR is not procuring or participating in personal services contracts.

⁵ Requisition/Procurement Request for Equipment, Supplies or Services

⁶ GSA 300, Order for Supplies and Services

⁷ *Science Applications, Inc., B-197099, 1980 WL 16579 (May 20, 1980)*

Management Comments

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged our finding. Management's written comments to the draft report are included in their entirety as **Appendix B**.

Finding 2 – PBS NCR violated federal regulations by not ensuring a predecessor contractor's employees were offered the right of first refusal.

PBS NCR did not ensure the employees under a predecessor contract had the right of first refusal, in accordance with FAR 52.222-17, Nondisplacement of Qualified Workers. This reduced the potential efficiencies gained by retaining experienced personnel.

Executive Order 13495, *Nondisplacement of Qualified Workers Under Service Contracts*, cites the economy and efficiency gained when the successor contractor hires the predecessor's employees. It notes a carryover work force reduces disruption to the delivery of services and provides the government the benefits of an experienced and trained work force familiar with the government's requirements. The Executive Order states there shall be no employment openings under the successor contract until the right of first refusal has been offered to incumbent contract staff.

As part of our review of the service contract discussed in *Finding 1*, we requested the predecessor contract for the budget analyst services procured under Contract Number GS-11P-13-ZG-C-0260. We wanted to determine if the initials included on the successor procurement documents corresponded to employees working under the predecessor contract. The list of names in the predecessor contract documents did not match the initials included in the successor contract documents.

We reviewed the successor contract file to determine what actions PBS NCR took to address the Executive Order. FAR 52.222-17, which implements the Executive Order, outlines a series of steps the predecessor contractor, the successor contractor, and the contracting officer should take to ensure qualified employees are offered the applicable right of first refusal. In part, the clause requires the predecessor contractor to provide the contracting officer with a certified list of all employees working under the contract. Immediately upon receipt of this list, but not before contract award, the contracting officer is to provide the certified service employee list to the successor contractor. Although FAR 52.222-17 was incorporated by reference into the successor contract, the contract file did not confirm that the action steps required by the FAR were completed.

When we discussed the FAR requirements with the contracting officer, he stated that the contractors are familiar with the contract clause and implementation was the responsibility of the contractor. While the FAR does require specific actions by the applicable contractors, the contract files do not support that the contracting officer took the necessary actions to ensure that the predecessor contractor employees' rights were protected and that PBS NCR sought the benefits of using predecessor employees.

Recommendation 2

We recommend that the Regional Commissioner, Public Buildings Service, National Capital Region develop, implement, and maintain the management controls necessary to ensure that services contracts comply with FAR 52.222-17, Nondisplacement of Qualified Workers.

Management Comments

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged our finding. Management's written comments to the draft report are included in their entirety as **Appendix B**.

Finding 3 – PBS NCR violated federal regulations by failing to maintain a contract file for an active elevator maintenance contract.

PBS NCR failed to maintain an active contract file, violating the FAR and restricting PBS NCR's ability to effectively administer and closeout the contract. FAR 4.801 – 4.803, Government Contract Files, require the head of each office performing contracting, contract administration, or paying functions to establish files containing the records of all contractual actions. The FAR requires the documentation to be sufficient to constitute a complete history of the transactions. FAR 4.804, Closeout of Contract Files, also requires the documentation in the contract files to be retained until contract closeout.

In October 2013, PBS NCR provided a list of Triangle contracts in effect in fiscal year 2013. We chose seven active service contracts as our audit sample, including an elevator maintenance and repair services contract, Contract Number GS-11P-09-AG-D-0068, with a listed value of \$2,209,581.

When we initially requested the contract file in November 2013 PBS NCR procurement officials advised us that it could not be located. We queried the Federal Procurement Data System – Next Generation (FPDS-NG) to determine the status of the contract. FPDS-NG showed an April 10, 2013, modification to extend the contract through April 14, 2014, bringing the total contract value to \$2,727,957.

Since FPDS-NG indicated this was still an active contract to April 2014, we asked the contracting officer how PBS NCR was administering an active contract without the contract files. Instead of providing an explanation, the contracting officer mentioned another entity that might have the file. We checked on the status of the contract file several times during our audit, yet never received any contract file documents.

The lack of a complete contract file hampers PBS NCR's ability to adequately administer and closeout the contract. Incomplete or missing contract documentation also limits PBS NCR's ability to respond to any potential financial claims. As a result, the risk of fraud, waste, and abuse on this contract is heightened.

Recommendation 3

We recommend that the Regional Commissioner, Public Buildings Service, National Capital Region develop, implement, and maintain the management controls necessary to ensure that procedures are in place to recreate a contract file and administer a contract should a file be lost.

Management Comments

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged our finding. Management's written comments to the draft report are included in their entirety as **Appendix B**.

Finding 4 – PBS NCR failed to document the authorization and receipt of goods and services for purchase card transactions thus circumventing established controls over the purchases.

PBS NCR purchase cardholders did not document the pre-authorization or verification of receipt and acceptance for all goods and services. This circumvented the controls established by GSA policy to ensure transactions are properly authorized and ordered goods and services are received.

GSA Order CFO 4200.1A,⁸ *Use of the GSA Purchase Card*, Section 3(d) sets out the roles and responsibilities for the cardholder. The responsibilities include obtaining prior written authorization from the authorizing official for all purchases; documenting all purchase card transactions; retaining all documents, and ensuring audit trails are maintained for all purchases; and ensuring the independent receipt and acceptance of goods and services is documented for all purchases over \$75.

We reviewed purchase card transactions made by Triangle's 16 purchase cardholders during the sample period of July 2012 through June 2013. We requested supporting documentation for a judgmental sample of 53 of the 401 (13 percent) purchases consisting of \$40,232 (9 percent) of Triangle's \$457,227 purchase card transactions. Purchases included operations and maintenance supplies, building materials, and small repairs.

We found that cardholders did not maintain complete documentation for the transactions. Of the 53 transactions, 19 transactions (36 percent) had incomplete

⁸ This guidance was in effect during our fieldwork. After completion of our fieldwork, GSA issued GSA Order OAS 4200.1A, *Management and Use of the GSA SmartPay® Purchase Card* on January 7, 2015. It retains the requirements cited above, including written pre-authorization and that the receipt and acceptance of goods and services be documented, although the threshold is raised to \$150.

supporting documentation. This included 6 transactions with no pre-authorization documents and 18 with no documentation verifying receipt and acceptance.⁹

GSA Order CFO 4200.1A also addresses the importance of separation of duties. Program Oversight, Section 26 states that key functions such as authorizing purchases and payments, making purchases, and review and auditing should not be performed by the same individual. The Order notes proper separation of duties minimizes GSA's risk. The lack of documentation confirming the required separation of duties for credit card transactions increases the risk of fraudulent or improper purchases.

Recommendation 4

We recommend that the Regional Commissioner, Public Buildings Service, National Capital Region develop, implement, and maintain the management controls necessary to ensure that purchase cardholders comply with GSA Order OAS 4200.1A.

Management Comments

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged our finding. Management's written comments to the draft report are included in their entirety as **Appendix B**.

Finding 5 – PBS NCR overpaid an operations and maintenance contractor at least \$4,000 by using an incorrect deductible amount for minor repairs.

A contracting officer's representative (COR) used an incorrect deductible for minor repairs ordered from an operations and maintenance contractor, causing PBS NCR to overpay the contractor at least \$4,000.

During our review of purchase card transactions, discussed in *Finding 4*, we noted one cardholder made 38 purchases from two operations and maintenance contractors. The cardholder said she routinely used the contractors since they held the operations and maintenance contracts for the building where the minor repairs were performed. We requested the scopes of work for the contracts from the cardholder, who was also the COR for the contracts. The first contract had a deductible of \$350 for minor repairs, while the second (Contract Number GS-11P-13-ZG-C-0064) required that the contractor perform minor repairs up to \$1,000 at no further cost to the government. It also required that amount be deducted from the cost of reimbursable repairs above \$1,000.

The COR used the purchase card to make 16 purchases from the second contractor between July 2012 through June 2013. However, the COR used a \$350 deductible in 7 of the 16 transactions, instead of the \$1,000 deductible required by the contract. This caused PBS NCR to overpay the contractor \$4,000.

⁹ Five transactions were missing both the pre-authorization and the verification of receipt and acceptance documents.

The COR acknowledged she used the incorrect deductible for the minor repairs, using the \$350 minor repairs deductible amount from the first contract. The COR used the incorrect minor repairs deductible amount from January to June 2013.¹⁰ The contract was extended through September 2014, so there are potentially more overpayments from July 2013 through September 2014.

The COR said she would work with the contracting officer and contract specialist to collect any overpayments. Subsequently, the COR told us that due to the incorrect deductible, overpayments of \$15,455 were made over the contract's period of performance. She said this amount was deducted from invoice payments due to the contractor before the contract was closed-out. We were not provided documentation confirming these deductions.

Recommendation 5

We recommend that the Regional Commissioner, Public Buildings Service, National Capital Region review all purchase card transactions under Contract Number GS-11P-13-ZG-C-0064 to identify and recover all potential purchase card overpayments.

Management Comments

The Regional Commissioner, Public Buildings Service, National Capital Region acknowledged our finding. Management's written comments to the draft report are included in their entirety as **Appendix B**.

¹⁰ We reviewed purchase card transactions from the period July 2012 through June 2013. The operations and maintenance contract's period of performance covered January 2013 through September 2014.

Conclusion

A PBS Service Center is responsible for ensuring that tenant needs are met efficiently and economically in GSA owned and leased buildings. Our audit found that PBS NCR needs to improve the contracting actions supporting this mission. PBS NCR violated federal regulations and Agency policy by awarding a prohibited personal services contract, not ensuring a predecessor contractor's employees were offered the right of first refusal, failing to maintain a contract file for an active elevator maintenance contract, failing to document the authorization and receipt of goods and services for purchase card transactions, and overpaying an operations and maintenance contractor at least \$4,000 for minor repairs.

PBS NCR officials stated they have started taking corrective action on the issues identified during our audit. To prevent these matters from occurring in the future, PBS NCR needs to establish and implement management controls to improve awareness of, and adherence to, procurement regulations and policy. Although we did not uncover any improper purchases, the lack of management controls creates an environment where fraudulent or improper purchases could occur.

Accordingly, we recommend the Regional Commissioner, Public Buildings Service, National Capital Region develop, implement, and maintain the management controls necessary to ensure that:

- PBS NCR is not procuring or participating in personal services contracts;
- Services contracts comply with FAR 52.222-17, Nondisplacement of Qualified Workers;
- Procedures are in place to recreate a contract file and administer a contract should a file be lost; and
- Purchase cardholders comply with GSA Order OAS 4200.1A.

We also recommend the Regional Commissioner review all purchase card transactions under Contract Number GS-11P-13-ZG-C-0064 to identify and recover all potential purchase card overpayments.

Appendix A – Purpose, Scope, and Methodology

Purpose

Audits of PBS's Property Management Service Centers¹¹ were included in the Office of Inspector General Fiscal Years 2013 and 2014 Audit Plans. Our audits, which were focused on procurements, examined the economy and efficiency of the Service Centers.

Scope and Methodology

This particular audit focused on five¹² Triangle service contracts that PBS NCR listed as active in fiscal year 2013. We judgmentally selected our sample from a list of 101 Triangle service contracts totaling \$49 million, provided by PBS NCR. The combined value of the five contracts was \$6.9 million, 14 percent of the contract universe.¹³ The contracts included a professional services contract, a custodial services contract, an elevator maintenance and repair services contract, and two operations and maintenance services contracts.

To accomplish our objective, we:

- Read prior audit reports related to PBS's property management practices;
- Reviewed the sampled contract files, including contract modifications, scopes of work, security clearance requirements, PBS NCR Quality Assurance Surveillance Plans, and the contractors' Quality Control Plans;
- Met and corresponded with contracting officials, building managers, the regional charge card coordinator, and GSA Security Office personnel;
- Analyzed PBS's customer satisfaction surveys to determine if tenants expressed any concerns that could be due to contractor performance;
- Reviewed GSA Policy and Procedure CIO P 2181.1, *Homeland Security Presidential Directive-12 Personal Identity Verification and Credentialing*, GSA Order CFO 4200.1A, *Use of the GSA Purchase Card*, FAR, and Executive Order 13495, *Nondisplacement of Qualified Workers Under Service Contracts*;
- Examined contractor service logs and inspection reports to identify non-compliance issues, the actions taken to correct them, and timeliness of corrective action; and

¹¹ In the National Capital Region, a Property Management Service Center is referred to as a Service Center.

¹² Our original audit sample included 7 service contracts: 1 custodial contract, 2 operations and maintenance contracts, 2 commercial facilities management contracts, 1 elevator maintenance and repair contract, and 1 professional services contract. We did not complete our analysis of the two commercial facilities management contracts because, while listed as active contracts, the contracts had closed prior to the start of our audit fieldwork.

¹³ Based on the award amount of the contracts on the initial PBS NCR list. Actual total contract value at the time of our field work was \$12.3 million, including contract modifications which increased the total contract value.

Appendix A – Purpose, Scope, and Methodology (cont.)

- Conducted four building inspections to determine compliance with custodial and operation and maintenance contract requirements.

We conducted the audit between September 2013 and June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

We evaluated internal controls over PBS NCR's Service Center procurement processes to the extent necessary to answer the audit objective. Related internal control issues are discussed in the context of the audit findings.

Appendix B – Management Comments



GSA National Capital Region

JUN 19 2015

MEMORANDUM FOR: NICHOLAS GOCCO
PRINCIPAL DEPUTY ASSISTANT INSPECTOR GENERAL
FOR REAL PROPERTY

FROM: DARREN J. BLUE 
REGIONAL COMMISSIONER (WP)
PUBLIC BUILDINGS SERVICE
NATIONAL CAPITAL REGION

SUBJECT: PBS NCR Triangle Service Center Violated Federal Regulations
and GSA Policy When Awarding and Administering Contracts—
Audit Report # A130129

PBS/NCR appreciates the opportunity to comment on the draft audit report and acknowledges the five audit findings. All of these findings occurred before the creation of the new Office of Acquisition, which has been established to develop and implement management controls to address such issues.

With regard to Finding #4, that PBS/NCR failed to document the authorization and receipt of goods and services for purchase card transactions, the Office of Facilities Management, which oversees all NCR Service Centers, will implement next month a centralized tracking system and approval tool that will streamline the workflow for purchase card holders and their approving officials. In addition, the Triangle Service Center has conducted three refresher training courses for all of its credit card holders and approving officials over the past 10 months. With regard to Finding #5, that PBS/NCR overpaid an operations and maintenance contractor at least \$4000 by using an incorrect deductible amount for minor repairs, GSA is in discussions with the contractor for reimbursement.

The new Office of Acquisition has been proactive in correcting conditions that contributed to the findings in this draft audit report and has been directed to further identify specific management controls to address these concerns. These management controls will be included in our corrective action plan.

If you or your staff have any additional questions or concerns, please do not hesitate to contact Vince Mamer at 202-708-4617.

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Appendix C – Report Distribution

Acting Administrator, GSA (A)

Commissioner, PBS (P)

Deputy Commissioner, PBS (PD)

Chief of Staff, PBS (P)

Regional Commissioner, PBS, National Capital Region (WP)

Regional Administrator, National Capital Region (WA)

Regional Counsel, National Capital Region (LDW)

Acting Director, Office of Facilities Management, PBS, National Capital Region (WPM)

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